

Picture: skvoor / Shutterstock



The growing need for ADR in IP disputes

People are turning to different ways of resolving international IP disputes. **Jeremy Lack** explores

Humans tend to resolve their disputes like all animals: through power. Society created laws and rights to resolve disputes based on more equitable grounds. Intellectual property (IP) disputes today are determined by a combination of power and rights. The party who has the most resources may still win. This problem is compounded when seeking to enforce IP rights worldwide, which are nationally constrained by their nature. An owner will typically own rights in more than one country and will need to litigate in several countries. Notwithstanding globalisation, IP rights remain disparate, confusing, highly technical and national territorial "rights to exclude" varying tremendously from country to country in a flattening world. Not much has changed since UK Judge Michael Fysh addressed an international panel of IP litigators in 1999 as follows:

"Ever more frequently, one experiences the same patent being litigated in more than one European jurisdiction. This has very often given rise to ... differences which have arisen in jurisprudence which reflect a difference in philosophy and even in culture when it comes to construing patent claims. ... [T]he relevant articles of the [European Patent Convention] as expressed in national patent acts which were drafted so as accurately to reflect those articles, has yielded some strange results in practice. As one of the London patent judges recently stated: 'Intellectual Property litigation in general and patent litigation in particular in Europe is in a state of some disarray.'"¹

Although that statement was directed at Europe's patent litigation system, it applies to virtually all IP rights today. This "state of disarray" is an increasing concern in a society where technologies evolve, are increasingly cross-disciplinary and digitised (including software and databases), where there are more co-owners of IP assets, more stakeholders, and IP rights have grown in economic importance as intangible assets, accounting for more than 70% of the value of most companies.

A possible solution to the current disarray could be thought to lie in international arbitration. Arbitration is a rights-based dispute resolution process that consists of appointing an independent and private tribunal of neutral third parties to resolve disputes. The arbitrators are experienced IP experts who have been jointly appointed by the parties to apply a legal syllogism ("facts + law = outcome") thus providing a binding award and certainty of outcome. The tribunal decides all procedural and substantive issues itself, including the scope of its own competence. Its awards are more easily enforced than national court decisions by virtue of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. This treaty essentially provides that unless there is manifest absence of due process or jurisdiction, an arbitral award must be given full recognition and enforcement in all Convention states. This would have been rare only a decade ago, when many countries still deemed IP rights to be matters of public policy under the exclusive competency of national courts and beyond the scope of the New York Convention. In the same way as only national governments can issue territorial IP rights, it was felt that only national courts can declare them to be invalid in their respective countries. Most member states, however, are increasingly accepting the "arbitrability" of IP rights by international arbitration tribunals. Most arbitration service providers have since handled IP cases using arbitrators who know how to shape their awards to be binding as between the parties and not *erga omnes*, if necessary, to avoid public policy complications.

The increased acceptance of arbitration in IP disputes is evidenced by the World Intellectual Property Organization (WIPO) setting up its own Arbitration and Mediation Center in 1995, which provides modern and effective international rules and services for arbitration, including specialised expedited arbitration rules for the film and media industry and for disputes relating to royalties for the re-transmission of audiovisual works created by independent producers². WIPO also provides Expert Determination rules and services, similar to arbitration, but which may be non-binding. This process is designed to help resolve focused technical or industry-specific disputes, such as the scope of certain IP rights, their valuation, or determining appropriate royalty rates for a licence agreement³. WIPO is also at the forefront of administering domain name disputes, resolving thousands of complaints every year within a matter of months. These types of processes, using evaluative neutrals to resolve cross-border IP disputes instead of national courts, are growing in popularity as evidenced by WIPO's reported annual case statistics, especially within the last five years.

But arbitration is not a simple process. First of all, both sides must agree to the process, the institution to be used, the language

of the proceedings, the seat of the arbitration and most importantly on the selection of the tribunal (one or three arbitrators). Public policy concerns also remain in some countries, and it is indicative that the EU Community Trade Mark and Design Right appear to still be non-arbitrable subject matter when it comes to their being declared invalid *erga omnes*. International arbitration also tends to be expensive and protracted. The process can vary tremendously depending on whether it is conducted in a civil law jurisdiction or in a common law jurisdiction, affecting outcomes.⁴ Arbitration cannot escape the territorial confines of national laws, and may be just as litigious and draining as parallel litigation proceedings before national courts if the tribunal has to

“The choice between these two processes was once described by a client as having “the choice between the pox and cholera.”

consider each IP right under the laws of each country separately. The idea of delegating a “bet your company” case to a panel that is subject to limited judicial review can be destabilising. It can be unsafe to place all one’s eggs in one basket. The losing party is also usually ordered to pay the winning party’s costs. These can vary tremendously, and the costs of the proceedings may end up being greater than the damages claimed. Claimants wishing to enforce their arbitral awards may still encounter difficulties when seeking the execution of their award abroad. According to anecdotal data, although arbitration provides 100% certainty of outcome, many claimants do not succeed in having their awards actually enforced. Respondents declare bankruptcy and assets disappear into a maze of complex special purpose vehicles that may take years to unravel.

A new approach

It is time to think of new ways of resolving IP disputes internationally, focusing on faster, cheaper and better ways of achieving international outcomes. A new approach is needed to replace the logic of power and rights, and to avoid the nationalistic thinking that existed when IP rights were created in the first place. We also need to shift our thinking from assessing past facts and territorial laws, to looking towards the future and thinking globally. This is what Appropriate Dispute Resolution (“ADR”) offers. It should not be considered as an “alternative”, but in terms of what is “appropriate” to resolve the dispute most effectively.

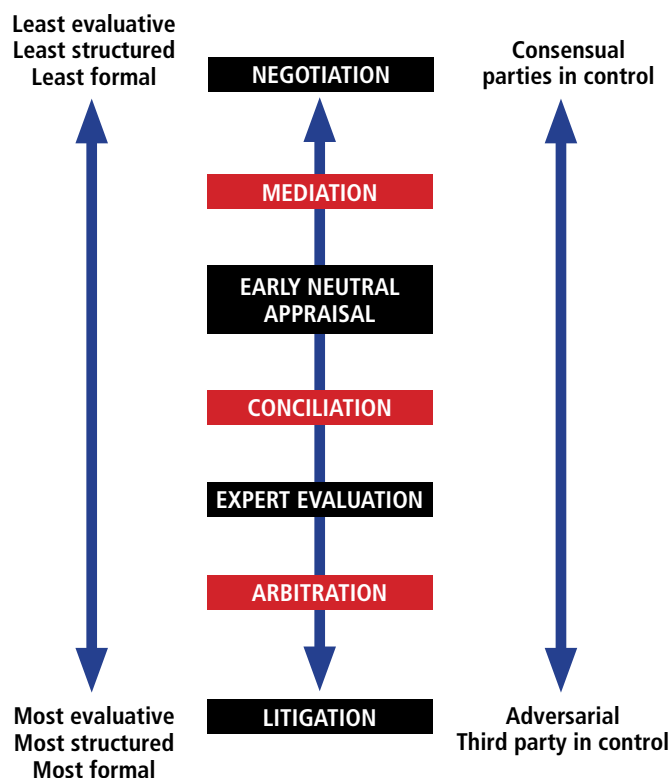
Global IP disputes can be better resolved by using processes that focus on interests, rather than positions, without abandoning one’s rights in doing so. The parties can construct a process that provides them with greater autonomy and flexibility, providing greater certainty of outcome, where interpretations of law or facts are no longer dispositive of outcomes. Despite its potential, ADR remains relatively unused. It is not well understood by IP owners, specialists and lawyers, who do not understand how it works and remains relatively unused. Paradoxically, its greatest supporters are seasoned IP litigators who appreciate the potential of ADR and how it can best be used to resolve global disputes in matters of months rather than years. It entails a new no-risk approach to conflict diagnosis and resolution.

David Plant is a highly respected international arbitrator and mediator with many years’ experience in litigating complex IP disputes.

He began to understand and use the power of ADR (primarily mediation and arbitration) 25 years ago. At a 2009 meeting of the International Chamber of Commerce (ICC) to present his new book on ADR of IP disputes,⁵ he stated “we have to consider the process as part of the problem”. IP litigators tend not to think too much about procedural choices, other than venue, when initiating proceedings. The process itself then becomes part of the problem. By thinking mainly in terms of rights-based dispute resolution systems – litigation or arbitration – processes such as collaborative law, mediation or conciliation, are given short shrift. ADR is thus often inappropriately referred to as “alternative dispute resolution”, suggesting it is not the normal way of resolving disputes. Given the time, costs and uncertainties that litigation and arbitration processes can entail, however, as well as their drain on morale, the choice between these two processes was once described by a client as having “the choice between the pox and cholera”.

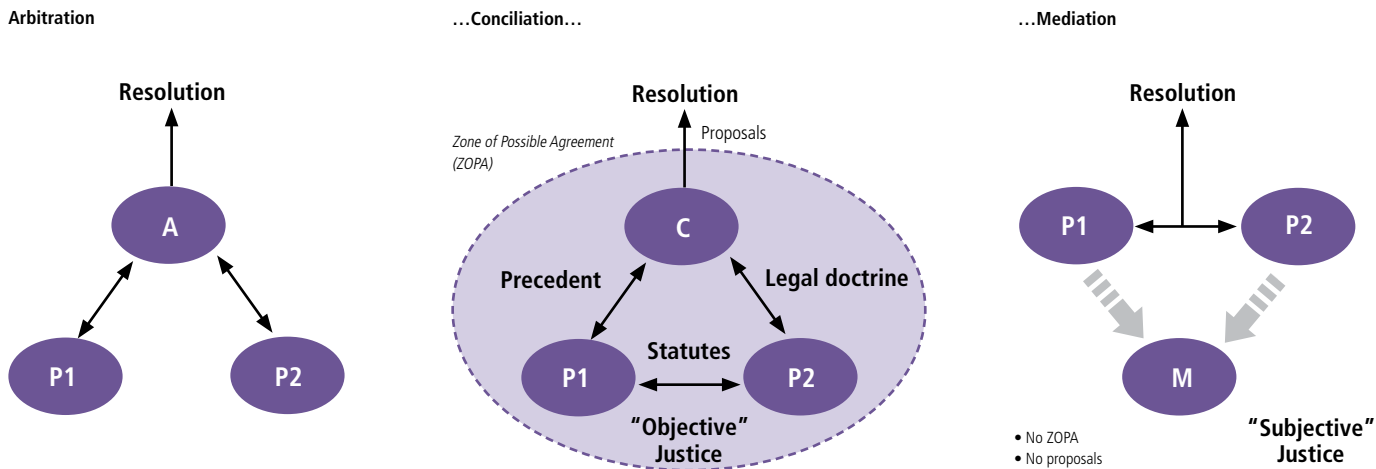
There are, in fact, a far broader range of procedural choices available to IP rights owners wishing to resolve a global dispute rapidly and cost-effectively. Whether the other side is acting in good faith or even a copycat who is wilfully infringing the IP owner’s rights, ADR can provide faster, cheaper and better outcomes. The range of processes available are summarised (see Figure 1) in the form of a spectrum designed by Joanna Kalowski, an Australian mediator, ranging from the least evaluative, least structured and least formal process (negotiation), to the most evaluative, structured and formal process (litigation before national courts). The important thing when selecting a process (or a combination of processes) is to understand the degree of control the parties wish to maintain over the outcome and its enforceability, as well as the quality of the relationships the parties may wish to maintain following the resolution of the dispute. Maintaining amicable business relations may be an important interest in itself, especially for competitors who are likely to have recurring disputes and thus a mutual interest in resolving all conflicts as cordially as possible,

Figure 1: Selecting a process: Appropriate Dispute Resolution (ADR)



Source: J Kalowski, JOK Consulting; jok@jok.com.au

Figure 2: A comparison of arbitration, conciliation and mediation



Source: J Kalowski, JOK Consulting; jok@jok.com.au

P = Party

“Its mediations have a 73% settlement rate and its arbitrations have a 58% settlement rate.”

separating the people from the problem and reaching outcomes as cheaply, rapidly and fairly as possible whenever they arise. These considerations are seldom taken into consideration when litigation is the instinctive default mode of conflict resolution.

Which process to use should depend very much on the propensity of the conflict to escalate, the parties’ corporate cultures, their future business interests, and the personalities of their respective representatives (eg, whether they are likely to continue to have to interact in the future, even if as competitors). Conflict escalation theory and interest analysis are seldom taught to IP litigators. At a February 2010 meeting of the Association Internationale pour la Protection de la Propriété Intellectuelle (AIPPI) in Paris, an audience of approximately 250 seasoned international IP litigators gathered to discuss ADR. Although approximately one third of the room had some experience with mediation, very few were able to distinguish mediation from conciliation. When asked whether anyone had received any training in conflict escalation theory or conflict diagnosis, not a single person raised their hand. Here was an audience containing some of the world’s finest and most experienced IP lawyers, yet none it seemed had any training in assessing how the process itself can contribute to its escalation, or its propensity to achieve an outcome in line with the parties’ future business interests.

By using a different process design approach, disputants will often behave differently and work collaboratively to resolve a conflict, focusing on their future interests rather than on their national rights. This can only

happen if they retain their sense of autonomy and status. That is the promise of mediation and conciliation, which can be coupled with other ADR processes to create tailor-made hybrids. There is, however, considerable confusion between the words “mediation” and “conciliation” believed by many lawyers to be synonymous terms. In order to better understand the difference between them, it is useful to start with arbitration and compare it visually, as is done in Figure 2 above.

Arbitration, conciliation and mediation are three commonly available forms of ADR that can be used separately, but also together to create hybrids. Understanding the differences between them is important when designing processes and determining which is more appropriate and when. Whereas mediation entails focusing on the other party’s interests, conciliation and arbitration may entail focusing more on the neutral’s subject matter expertise, thus channelling resources and attention differently.

In conciliation, the neutral may act like an arbitrator but does not resolve the matter. (S)he can only make non-binding recommendations. The conciliator identifies norms by which the dispute can be resolved “objectively”. (S)he helps the parties to understand the parameters that could dispose of the matter before a court or in arbitration, and to better understand each party’s line of reasoning applying a rights-based approach, identifying key issues of fact or law in so doing. Based on the conciliator’s substantive understanding of law or relevant industry standards by which a solution may be sought, the parties are guided by precedents, rules or doctrines that will shape an outcome. The conciliator thus helps the parties to construct a Zone of Possible Agreement (ZOPA) in which they can negotiate an outcome similar to what a court or tribunal would provide for, but doing so more speedily and cost-effectively. The conciliator can also make proposals based on these parameters, and suggest possible outcomes based on these norms. Conciliation is thus a process that can be procedurally facilitative, but that is substantively evaluative, because outcomes are identified and resolved by means of objective norms and criteria.

In mediation, however, there is no ZOPA. The neutral refrains from evaluating or proposing solutions. There are no objective criteria. The mediator’s goal is to focus on each party’s subjective needs and interests, looking to the future. (S)he helps the parties to understand one another’s needs and to explore mutually satisfactory outcomes. Unlike

a conciliator, a mediator will try to refrain from making proposals unless requested to do so by both parties, or as part of a general brainstorming process. The mediator's job is to help the parties consider new options based on their subjective needs and interests, looking to the future. The main difference with arbitration and conciliation, therefore, is that a mediator cannot be viewed competitively as a person with whom a coalition can be built by either party.

The success rates for conflict resolution using mediation and conciliation are very high, especially when combined. WIPO's mediation rules cover mediation and conciliation as well as links to arbitration, allowing for combined processes in appropriate cases and special rules

“IP owners should be asking themselves why they are not already using a process with a 70 to 80% settlement rate and even higher satisfaction ratings for a fraction of the cost.”

for film and media industry-related disputes⁶. According to WIPO's Arbitration and Mediation Center, based on over 220 cases in recent years, its mediations have a 73% settlement rate and its arbitrations have a 58% settlement rate. Of the 27% of mediations that did not settle in mediation, several more went on to settle in arbitration before an award was granted. Using mediation followed by arbitration should generate an 89% settlement rate combining these statistics. It is for this reason that WIPO offers a model MED-ARB clause on its website⁷.

These statistics are supported by other mediation organisations, which also have a 70-80% settlement rate for mediation and/or conciliation⁸. According to a 2003 survey published by the American Arbitration Association, Fortune 1000 companies are increasingly turning to ADR as a result. The three top reasons given for using mediation as part of a conflict resolution process were: (i) that it saves money (91% of responses); (ii) that it saves time (84%); and (iii) that it provides a more satisfactory process (83%)⁹. The statistics from the Netherlands (a civil law jurisdiction) also support these numbers. According to Result ACB, a commercial mediation centre handling over 600 disputes per year in that country, mediation had a 77% settlement rate and a 94% satisfaction rating in 2004 for disputes with an average commercial value of €4.5 million that were resolved within four-and-a-half days¹⁰. Result ACB is now offering a new hybrid process involving both a mediator and a former senior judge, called a “Pre-Court Assessment”, having an estimated settlement rate of 100%¹¹.

It is for these reasons that leading IP owners, such as Akzo Nobel and Nestlé are increasingly using ADR. The former Chairman of Akzo's Board of Management Cees J.A. van Lede, refers to ADR as an opportunity to “turn your dispute from a business threat into a business opportunity”¹². It has become that company's corporate policy to first explore all ADR options before taking a dispute to court¹³. Similarly, Hans Peter Frick, the group general counsel of Nestlé SA has stated: “Early dispute resolution – the earlier ADR processes are implemented in the conflict cycle, the less risk there is of the dispute escalating out of control.” Selecting and designing ADR processes is becoming increasingly common within the IP arena as well. INTA has been a fervent proponent of ADR for many years, with its own panel of neutrals. It features ADR prominently on its website¹⁴. New hybrid ADR panels are also being designed, using

combinations of different ADR neutrals willing to work to try and settle complex disputes within 80 hours, using institutional ADR rules¹⁵.

Finally, the International Mediation Institute (IMI), founded by the American Arbitration Association (AAA), the Netherlands Mediation Association (NMI) and the Singapore mediation and arbitration centres is indicative of further changes to come. Since its creation, over 1,100 qualified mediators have registered on its site, with peer-reviewed user feedback available on 345 of them. The organisation's mission is to set quality and transparency standards to enable users to find qualified and suitable mediators worldwide, promoting greater use of ADR in so doing. IMI's website contains useful information that can be downloaded for free, including a decision tree for selecting mediators as well as an online questionnaire to assess disputes and determine what type of ADR process disputants may wish to use¹⁶.

It is only a matter of time before the potential of ADR for resolving disputes is fully realised, relegating litigation and arbitration to the status of “alternative” dispute resolution processes. In the meantime, IP owners should be asking themselves why they are not already using a process with a 70 to 80% settlement rate and even higher satisfaction ratings for a fraction of the cost.

Footnotes

1. See: <http://www.ficpi.org/library/montecarlo99/claimscope.html> at paras 2-3.
2. For a full list of WIPO's arbitration services, see www.wipo.int/amc/en/arbitration/.
3. See www.wipo.int/amc/en/expert-determination/.
4. According to statistics published by Michael McIlwrath the average cost of a civil law arbitration ranges from US\$ 277,000-835,000 per party, with a mid-point at US\$ 556,500, whereas the cost of a common law arbitration ranges from US\$ 652,000-2,225,000 per party, with a mid-point at US\$1,428,500. Source: *International arbitration & mediation: a practical guide* by McIlwrath & Savage, Kluwer Law International (2010). They are likely to be higher in IP disputes.
5. *We must talk because we can: Mediating international intellectual property disputes* by David W. Plant ICC Publication No. 695 (2008); www.iccbooks.com/Product/ProductInfo.aspx?id=491
6. www.wipo.int/amc/en/mediation/index.html
7. See WIPO's recommended clauses at www.wipo.int/amc/en/clauses/index.html
8. For surveys and research, see www.toolkitcompany.com under Resource Center, as well as statistics from INTA, JAMS, AAA, IACB, CEDR, Result ACB, ADR Center, CMAP, etc.
9. www.adr.org/si.asp?id=4123
10. See www.toolkitcompany.com under Resources
11. For further information, see: www.acbmediation.nl/ or contact m.schoneville@resultadr.com.
12. *Id.*
13. See www.acbmediation.nl, quoting Mr Jan Eijsbouts, Akzo Nobel's NV's former General Counsel.
14. www.inta.org
15. eg, www.picanadr.org.
16. www.imimmediation.org

Author



Jeremy Lack is a partner with ALTENBURGER LTD legal + tax (Switzerland), a door tenant with Quadrant Chambers (UK) and counsel to Pearl Cohen Zedek Latzer LLP (USA). He is an accredited ADR neutral with IMI, WIPO, INTA, CEDR, CMAP, ICC, IPOS, Result ACB and SCCM. The views expressed by the author are his own. For further information, please contact jlack@lawtech.ch